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FISCAL IMPACT STATEMENT

LS 7770

BILL NUMBER: HB 1717

NOTE PREPARED: Mar 23, 2007

BILL AMENDED: Mar 22, 2007

SUBJECT: Regulation of Loan Brokers.

FIRST AUTHOR: Rep. Bardon

FIRST SPONSOR: Sen. Bray

BILL STATUS: CR Adopted - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) The bill has the following provisions:

Securities Division Enforcement Officers: It exempts an enforcement officer of the Securities Division of the Office of the Secretary of State from basic training requirements for law enforcement officers. It also specifies that a securities enforcement officer is a law enforcement officer for the purpose of certain statutes.

Franchises and Collection Agencies: It gives the Securities Commissioner the same administrative powers and remedies to regulate: (1) franchises; and (2) collection agencies; as the Commissioner has to regulate securities. It also provides the same appeals procedures in the laws governing: (1) franchises; and (2) collection agencies; as are available under the laws governing securities.

Registration of Loan Brokers: It specifies that a person that seeks to be registered as a loan originator must: (1) apply to the Commissioner for a certificate of registration; and (2) pay a \$50 registration fee. It also specifies that a person that seeks to be registered as a principal manager for a loan brokerage business must: (1) apply to the Commissioner for a certificate of registration; and (2) pay a \$100 registration fee. It requires a person applying for registration as an originator or a principal manager to pass an examination.

Disciplinary Actions: It expands the reasons for disciplinary action against a loan broker or a registrant to include: (1) regulatory actions against the licensee or registrant in Indiana or other jurisdictions; and (2) certain violations, crimes, or practices committed by the licensee or registrant.

Exemptions: It provides that the exemption from the loan broker law that applies to a correspondent of loans insured by the United States Department of Housing and Urban Development applies only if the person

closes at least 25 insured loans in Indiana during each calendar year. It also provides that a person claiming certain exemptions from the loan broker law must file a notice every 24 months to receive or maintain the exemption.

Effective Date: (Amended) July 1, 2007.

Explanation of State Expenditures: (Revised) *Summary:* The bill will increase costs for the Securities Division of the Office of the Secretary of State and the Secretary of State to regulate franchises and collection agents and by adding to the registrations required for loan brokers. However, the bill provides new fees, civil penalties, and cost reimbursement that may offset the additional expenditures. Certain expenses for training and incarceration would not be offset.

(Revised) *Securities Division Enforcement Officers:* In order to exercise law enforcement powers, the bill requires securities enforcement officers of the Securities Division of the Secretary of State's Office to complete a pre-basic course for training law enforcement officers and any other training courses established by the Securities Commissioner and Law Enforcement Training Board. The Securities Division will incur salary expenses while enforcement officers are trained, but will not incur expenses for the pre-basic course. The Law Enforcement Academy provides the pre-basic course free of charge to individuals employed by law enforcement agencies. Cost for other training will depend on the requirements established by the Commissioner and Board.

Background on Pre-Basic Training: The pre-basic course is 40 hours, mostly completed online but containing interactive components for fire arms use and physical tactics. The Law Enforcement Academy is funded by the dedicated Law Enforcement Training Fund, which is funded by court fee revenue (under IC 33-19-7-5) as well as by General Fund appropriations. The FY 2006 expenditures by the academy were \$4.2 M (\$1.5 M from General Fund dollars and \$2.7 M of dedicated fund revenue). The academy reverted \$36,347 on June 30, 2006, to the state General Fund, and had on December 18, 2006, four vacant positions valued at \$80,912. Two of the vacant positions had been vacant for more than two years.

(Revised) *Franchises and Collection Agencies:* The Commissioner (for franchises) and the Secretary of State (for collection agencies) are given the authority to investigate and may issue orders or notices if it appears that a person has or is about to violate the provisions of the act. It allows the Commissioner or the Secretary of State to impose a civil penalty of up to \$10,000 per violation and to bring action in court to enforce payment. The provisions of the bill are expected to require the Securities Division to hire at least two more enforcement officers. The Commissioner and the Secretary of State may direct the costs of an investigation or proceeding to be paid.

Background: The Securities Division currently employs six enforcement officers. The base pay for the enforcement officers is about \$35,000 annually. Money from reimbursement of investigation costs are placed in the Securities Division Enforcement Account of the state General Fund. In FY 2006, expenses paid from this account were \$1.4 M.

(Revised) *Felony Offense:* The bill adds a Class C felony for a person knowingly or intentionally making or causing to be made in documents, investigations or proceedings a false or misleading statement. A Class C felony is punishable by a prison term ranging from two to eight years depending upon mitigating and aggravating circumstances. Assuming offenders can be housed in existing facilities with no additional staff, the average cost for medical care, food, and clothing is approximately \$1,825 annually, or \$5 daily, per prisoner. The average length of stay in Department of Correction (DOC) facilities for all Class C felony

offenders is approximately two years.

(Revised) *Registration of Loan Brokers:* The Commissioner will be responsible for registering loan brokers and new categories of managers and originators. The Securities Commission could incur increased costs including prescribing registration forms, maintaining license and registration numbers, preparing and administering tests, checking criminal background, and qualifications and background, and making investigations of registering individuals. The costs to provide these services is indeterminable, but these costs may be offset with registration fees and cost reimbursements allowed in the bill.

Explanation of State Revenues: (Revised) *Registration Loan Brokers:* Registration and license fees collected are placed in the Loan Broker Regulation Account of the state General Fund for use of the Securities Division in administering loan brokers. New registrations required by the bill could increase revenues to this account. The bill has the following fees and potential revenues.

Registration	Registration Fee in HB 1717	Estimated Number (unless noted)	Estimated Biennial Revenue
Loan Broker	\$200 (No change from current law)	1,265 (Actual as of 2/2007)	\$253,000
Ultimate Equitable Owner (10% or more of the equity interest)	\$50	1,265*	\$63,250
Loan Originator	\$50	8,000**	\$400,000
Principal Manager	\$100	1,265*	\$126,500
Exempt Correspondents of Loans Insured by the US Department of Housing and Urban Development	\$200	996**	\$199,200
* Estimated at one per loan broker (actual results may be higher). ** Securities Division estimates discussed at 2/20/2007 subcommittee meeting of the House Financial Institutions Committee.			

Background on the Loan Broker Regulation Account: Revenue from business license fees in FY 2005 were \$210,600 and in FY 2006 were \$114,240. The expenditures from the Loan Broker Regulation Account were \$48,196 in FY 2005 and \$37,415 in FY 2006. Costs of investigations recovered are deposited in the Securities Division Enforcement Account of the state General Fund. Revenues for this account in FY 2006 were \$837,374.

(Revised) *Felony Offense:* If additional court cases occur and fines are collected, revenue to both the Common School Fund (from criminal fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class C felony is \$10,000. However, any additional revenues would likely be small.

(Revised) *Civil Penalties:* The bill allows the Commissioner or the Secretary of State to impose a civil penalty on a person who violates the chapters concerning franchises and collection agencies. Penalties are

deposited in the Securities Division Enforcement Account of the state General Fund.

The bill allows the Commissioner or the Secretary of State to go to court to enforce payment and it allows appeal of final orders and civil penalties imposed by the Commissioner or the Secretary of State. If additional civil actions occur and court fees are collected, revenue to the state General Fund may increase. A civil filing fee of \$100 would be assessed when a civil case is filed, 70% of which would be deposited in the state General Fund if the case is filed in a court of record or 55% if the case is filed in a city or town court. In addition, some or all of the judicial salaries fee (\$15), the public defense administration fee (\$3), the court administration fee (\$2), and the judicial insurance adjustment fee (\$1) are deposited into the state General Fund.

Explanation of Local Expenditures: (Revised) *Felony Offenses*: If more defendants are detained in county jails prior to their court hearings, local expenditures for jail operations may increase. However, any additional expenditures would likely be small.

Explanation of Local Revenues: (Revised) *Felony Offenses*: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from court fees. However, the amounts would likely be small.

Civil Penalties: If additional civil actions occur, local governments would receive revenue from the following sources. The county general fund would receive 27% of the \$100 filing fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. Additional fees may be collected at the discretion of the judge and depending upon the particular type of case.

State Agencies Affected: Securities Commission; Indiana Law Enforcement Academy; Department of Correction; State Treasurer.

Local Agencies Affected: Trial courts, local law enforcement agencies.

Information Sources: www.inamb.com, Jeff Bush, 317-234-2741; Captain Bridge, 317-837-3228; Wayne Davis, 317-232-6681.

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